

STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

Wisconsin Energy Corporation, Integrys Energy)	
Group, Inc., Peoples Energy, LLC, The Peoples Gas)	
Light and Coke Company, North Shore Gas Company)	
ATC Management, Inc., and American Transmission)	
Company, LLC)	
)	14-0496
Application pursuant to Section 7-204 of the Public)	
Utilities Act for authority to engage in a)	
Reorganization, to enter into agreements with)	
affiliated interests pursuant to Section 7-101, and for)	
such other approvals as may be required under the)	
Public Utilities Act to effectuate the Reorganization.)	

Rebuttal Testimony of

JAMES F. SCHOTT

Executive Vice President and Chief Financial Officer
Integrys Energy Group, Inc.

On Behalf of
Integrys Energy Group, Inc.

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1 **I. INTRODUCTION AND BACKGROUND**

2 **A. Identification of Witness**

3 **Q. Please state your name and business address.**

4 A. My name is James F. Schott. My business address is Integrys Energy Group, Inc.
5 ("Integrys"), 200 East Randolph Street, Chicago, Illinois 60601.

6 **Q. Are you the same James F. Schott who provided direct testimony on behalf of**
7 **Integrys Energy Group, Inc. in this docket?**

8 A. Yes.

9 **B. Purposes of Rebuttal Testimony**

10 **Q. What are the purposes of your rebuttal testimony in this proceeding?**

11 A. The purposes of my rebuttal testimony are to respond to recommendations related to:
12 (1) The Peoples Gas Light and Coke Company's ("Peoples Gas") Accelerated Main
13 Replacement Program ("AMRP"), particularly concerning the timetable for completing
14 the project, proposed reporting requirements, and financial penalties for alleged
15 management inefficiencies¹; (2) Peoples Gas' and North Shore Gas Company's ("North
16 Shore") (together, the "Gas Companies") energy efficiency programs²; and (3) proposed
17 riders related to the Gas Companies' employee complement and the Integrys Customer
18 Experience ("ICE") customer information system project³.

¹ Direct Testimonies of the following witnesses: Illinois Commerce Commission ("Commission") Staff witness Eric Lounsberry (Staff Ex. 2.0), Illinois Attorney General's Office ("AG") witness Sebastian Coppola (AG Ex. 2.0), and City of Chicago/Citizens Utility Board ("City/CUB") witness William Cheaks Junior (City/CUB Ex. 3.0).

² Direct Testimony of City/CUB witness Karen Weigert (City/CUB Ex. 2.0).

³ Direct Testimony of AG witness David Effron (AG Ex. 1.0).

19 **C. Summary of Conclusions**

20 **Q. Please summarize the conclusions of your rebuttal testimony.**

21 A. The conclusions of my rebuttal testimony are:

22 (1) The Commission did not establish a 2030 completion date for the AMRP
23 independent of its approval of a cost recovery mechanism;

24 (2) Sections 5-111 and 9-220.3 of the Public Utilities Act (the “Act”), the Commission’s
25 rules (83 Illinois Administrative Code 556), and Rider QIP, Qualifying Infrastructure
26 Plant, of Peoples Gas’ Schedule of Rates for Gas Service include reporting requirements
27 that will provide the Commission and its Staff with substantial information about the
28 AMRP and additional reporting requirements are not needed;

29 (3) Peoples Gas does not include in its base rates or Rider QIP fines and penalties
30 associated with its AMRP work;

31 (4) the Commission approved the Gas Companies’ energy efficiency programs and those
32 programs meet the relevant legal requirements; and

33 (5) intervenor testimony about certain rate case issues, namely the Gas Companies’
34 employee complements and ICE costs and benefits, is incorrect and proposed riders
35 concerning those two items would be inappropriate and potentially unlawful.

36 **D. Attachments**

37 **Q. Do you have any attachments to your rebuttal testimony?**

38 A, Yes. JA Ex. 9.1 is a group exhibit consisting of copies of the Joint Applicants’ responses
39 to AG data requests 2.13, 3.05, 3.06, 5.05, 5.06, 5.07, 5.08, 5.09, 5.12, 5.13, 5.14, and
40 5.15.

41 **II. ACCELERATED MAIN REPLACEMENT PROGRAM**

42 **A. Completion of the Accelerated Main Replacement Program**

43 **Q. Staff witness Mr. Lounsberry recommends that the Joint Applicants “reaffirm”**
44 **Peoples Gas’ commitment to complete the AMRP by 2030 (Staff Ex. 2.0, 14:307-309)**
45 **and contends that the Commission’s Order in ICC Docket Nos. 09-0166/09-0167**
46 **(cons.) (the “2009 Rate Cases”) requires such a commitment (*Id.* at 13:287-296).**
47 **Has Mr. Lounsberry properly characterized Peoples Gas’ commitment and the**
48 **Commission’s order?**

49 A. No, I respectfully disagree with Mr. Lounsberry’s characterization of Peoples Gas’
50 commitment and the Commission’s order. Mr. Lounsberry’s testimony lacks necessary
51 context. Peoples Gas’ commitment to AMRP in the 2009 Rate Cases was to a 20-year
52 program that was linked to appropriate cost recovery, and the Commission’s directive of
53 a 2030 completion date was part of its approval of a cost recovery mechanism.

54 **Q. Please explain the basis for your conclusions about the Commission’s Order.**

55 A. In the 2009 Rate Cases, Peoples Gas requested a cost recovery mechanism to implement
56 its AMRP. The proposal had its genesis in the 2007 Rate Cases (ICC Docket Nos. 07-
57 0241/07-0242 (cons.) (the “2007 Rate Cases”). In the 2007 Rate Cases, the Commission
58 rejected Peoples Gas’ proposed cost recovery mechanism, but it identified information
59 that might have made it “easier to approve the rider.” *2007 Rate Cases Order* at 161-162.
60 Following the Commission’s guidance, Peoples Gas provided the requested information
61 in the 2009 Rate Cases to support its proposed Rider ICR, Infrastructure Cost Recovery.
62 That information included detailed descriptions and cost/benefit analyses of the proposed
63 system modernization and a legal and policy justification for the proposed cost recovery

64 mechanism. The Commission approved Rider ICR in the 2009 Rate Cases and, as part of
65 that approval of the cost recovery rider, it set a 2030 completion date for AMRP, which is
66 the language that Mr. Lounsberry quotes on page 13 of his direct testimony.

67 Peoples Gas implemented Rider ICR in 2011, but, later that year, an Illinois
68 Appellate Court held that the Commission lacked authority to approve Rider ICR. I am
69 advised that it is Peoples Gas' legal interpretation that the Commission linked its
70 discussion of the timeline for completion of the AMRP with its approval of the cost
71 recovery mechanism (Rider ICR). In the 2007 Rate Cases and the 2009 Rate Cases,
72 Peoples Gas was not seeking approval of a plan to accelerate ongoing main replacement
73 but, rather, of a cost recovery mechanism to implement an accelerated main replacement
74 program. Accordingly, the Commission language in the 2009 Rate Cases Order tying the
75 completion of the AMRP by 2030 to Rider ICR is no longer applicable. It remains
76 Peoples Gas' intention, assuming it receives and continues to receive appropriate cost
77 recovery, to complete the AMRP by 2030, *i.e.*, in 20 years from the 2011 inception.
78 However, Peoples Gas has made no commitment and does not understand itself to be
79 under any requirement to complete the project in that timeframe.

80 **Q. In contrast with Mr. Lounsberry, AG witness Mr. Coppola questions whether**
81 **continuing the AMRP is in the public interest (AG Ex. 2.0, 33:665-34:675). Does**
82 **Mr. Coppola persuade you that the AMRP should be cancelled?**

83 A. No. Nothing in Mr. Coppola's testimony undermines the many reasons Peoples Gas
84 detailed in the 2009 Rate Cases for accelerating main replacement. All of these reasons
85 remain true today. What is new, and significant, is that the Illinois General Assembly
86 recognized the importance of capital improvement projects like the AMRP to the citizens

87 of Illinois. The Illinois General Assembly passed a bill, which the Governor signed into
88 law in 2013, to provide a cost recovery mechanism (Rider QIP) through 2023 so that
89 large gas utilities, such as Peoples Gas, would embark on capital improvement projects
90 like AMRP. The Illinois General Assembly included rate protections for customers in the
91 law, Section 9-220.3 of the Act, which include caps on annual and cumulative rate
92 increases that a utility may bill customers under the rider. Also, as I discuss below, the
93 law and the Commission's rules include other customer protections such as annual
94 prudence reviews, detailed reporting requirements and a baseline amount of capital
95 spending.

96 **B. Reporting Requirements**

97 **Q. With reference to the ongoing investigation initiated by the Order in ICC Docket**
98 **Nos. 12-0511/12-0512 (cons.) ("2012 Rate Cases"), Staff witness Mr. Lounsberry**
99 **recommends that Peoples Gas provide biannual reports to the Commission,**
100 **beginning in 2018 and extending until the end of the AMRP, about any change in**
101 **implementation of the recommendations from the investigation. Does Peoples Gas**
102 **provide information about AMRP to the Commission?**

103 **A.** Yes. I first note that Joint Applicants witness Allen Leverett (Joint Applicants Ex. 6.0)
104 states in his rebuttal testimony that the Joint Applicants agree to Mr. Lounsberry's
105 condition to the extent it is determined the recommendations should be implemented.

106 However, in addition to those requested reports, the Commission receives and
107 will continue to receive ample information about the AMRP. First, in rate case
108 proceedings, Staff, intervenors, and the Commission will review additions to rate base.
109 For Peoples Gas, AMRP represents the bulk of rate base additions. Second, Rider QIP

has detailed monthly reporting requirements. Each monthly filing must include cost and project information supporting the surcharge percentage. Third, Rider QIP has an annual reconciliation process. In addition to several schedules that must accompany the annual reconciliation filing, the Commission will initiate a docket for the annual filing in order to address the prudence of costs Peoples Gas has recovered through the rider. Fourth, Rider QIP has an annual internal audit requirement. Fifth, Rider QIP requires Peoples Gas to file an annual QIP plan update. The update must provide Peoples Gas' specific plan for that calendar year's Qualified Infrastructure Investment, including planned replacements of underground natural gas facilities during the year. The Rider QIP requirements are all part of the Commission's rules (83 Illinois Administrative Code Part 556) and, in some cases, Section 9-220.3 of the Act. Sixth, Section 5-111 of the Act lists ten separate annual reporting requirements, one of which will show data about Peoples Gas' AMRP.

Q. AG witness Mr. Coppola recommends that the Commission condition approval of the Reorganization on annual reports to the Commission reconciling actual and forecast AMRP investments and detailed work plans. Would this be redundant with other AMRP reporting?

A. Yes. Rider QIP, and the related Commission rule, provides the Commission with considerable information to oversee AMRP implementation, planning and costs. As stated in my previous response, the Joint Applicants have agreed to additional reporting associated with the investigation required by the 2012 Rate Cases Order. Mr. Coppola's proposed added reports would have little, if any, incremental value. For example, the monthly Rider QIP filing includes a detailed schedule, for each project, with plant

accounts, project descriptions and dollar amounts. The annual Rider QIP reconciliation filing requires, among other things, monthly actual costs and revenues, schedules showing compliance with the rate cap, a summary of work orders or projects, copies of the applicable general ledger or comparable material supporting recovery, and information supporting the prudence of investment amounts.

Q. AG witness Mr. Coppola proposed that Peoples Gas credit customers for all construction fines and penalties paid to the City from the beginning of the AMRP in 2011, that Peoples Gas has recovered in base rates or riders and that it not receive recovery of fines and penalties going forward (AG Ex. 2.0, 35:706-714). Has Peoples Gas included fines and penalties in its base rates or in a rider?

A. No. Peoples Gas excludes fines and penalties from base rate recovery requests and it does not include fines and penalties in any rider recovery mechanism. Mr. Coppola's proposal is unnecessary.

Q. City/CUB witness Mr. Cheaks lists six items that the Commission should monitor (City/CUB Ex. 3.0, 50:982-995). Is this information needed in light of other AMRP reporting?

A. No existing oversight and review mechanisms exist, and the addition of further requirements would be burdensome and redundant without providing any substantial benefit. As described in response to Mr. Lounsberry and Mr. Coppola, the information identified by Mr. Cheaks is adequately covered by existing reporting requirements. Through those reports, the Commission has sufficient information to monitor Peoples Gas' AMRP. Joint Applicants witness David Giesler (Joint Applicants Ex. 10.0) also addresses this proposal.

156 **Q. Mr. Cheaks also recommends financial penalties for what he calls “management**
157 **deficiencies” and “management inefficiencies” (City/CUB Ex. 3.0, 49:967 - 50:981).**

158 **Are the proposed penalties appropriate?**

159 **A.** No, they are redundant with existing regulatory oversight tools. In rate cases, before
160 adding amounts to rate base, the Commission reviews the prudence and reasonableness of
161 the investment. Under Rider QIP, the Commission will conduct an annual prudence
162 review of amounts recovered through the rider. These processes, established under the
163 Act, protect customers from bearing the cost of practices that lead to imprudent costs.

164 **III. ENERGY EFFICIENCY PROGRAMS**

165 **Q. City/CUB witness Ms. Weigert (City/CUB Ex. 2.0) recommends several conditions**
166 **be imposed in the Commission’s approval of the proposed Reorganization based on**
167 **energy efficiency related issues. Do you have a general response to her testimony**
168 **before addressing the specific conditions requested?**

169 **A.** Joint Applicants witness Mr. Leverett addresses Ms. Wiegert’s proposed conditions and
170 how, if at all, they relate to the requirements in Section 7-204 of the Act. However, Ms.
171 Weigert’s proposals are generally inconsistent with the statutory energy efficiency regime
172 in Illinois, as provided under Section 8-104 of the Act, and the Commission’s orders
173 approving the Gas Companies’ plans to implement Section 8-104 programs.

174 **Q. Has she substantiated her allegation that Peoples Gas’ energy efficiency portfolio**
175 **(“EEP”) is delivering “less than the full measure” of energy savings (City/CUB Ex.**
176 **2.0, 5:78-79)?**

177 A. No. The sufficiency of Peoples Gas' EEP programs is supported by the Commission's
178 final order in ICC Docket No. 13-0550 and the results of the first three years of Peoples
179 Gas' EEP program ("Plan 1 Program")⁴. As discussed below, Peoples Gas' Plan 1
180 Program met the requirements of the Commission's final order in ICC Docket No. 10-
181 0564⁵, therefore meeting the statutory requirements under Section 8-104 of the Act. The
182 Commission approved the current three-year Peoples Gas EEP program ("Plan 2
183 Program")⁶ in ICC Docket No. 13-0550, which Peoples Gas interprets to mean that the
184 Commission found that it met the "full measure" of savings. Last, a requirement that
185 Peoples Gas spend an additional \$10 million dollars on energy efficiency programs
186 without recovery of that spending would run contrary to both Section 8-104, which
187 allows for recovery of utility energy efficiency expenditures (220 ILCS 5/8-104(e)), and
188 long-held regulatory practice.

189 **Q. Please describe the requirements of an EEP under Section 8-104 as to program**
190 **goals and the rate cap on EEP charges to customers.**

191 A. While I am not an attorney, my understanding is Section 8-104 of the Act requires each
192 natural gas utility to file an EEP program with the Commission for each three-year
193 program period. In each three-year program period, the utility must achieve a statutorily-
194 defined savings goal, but it is required to limit the energy efficiency programs
195 implemented "... by an amount necessary to limit the estimated average increase in the
196 amounts paid by retail customers in connection with natural gas service to no more than

⁴ Peoples Gas' Plan 1 Program EEP was filed and approved in ICC Docket No. 10-0564. The Plan 1 Program EEP ran from June 1, 2011 through May 31, 2014.

⁵ Peoples Gas' independent evaluator is currently preparing the final report assessing the natural gas savings achieved by Peoples Gas in the Plan 1 Program.

⁶ Peoples Gas' Plan 2 Program runs from June 1, 2014 through May 31, 2017.

2% ...” 220 ILCS 5/8-104(d). Thus, if the utility concludes that achieving the statutory standard is highly unlikely to be met without exceeding that 2% “rate cap,” the utility may petition the Commission to have the statutory goal modified so that the 2% rate cap is not exceeded.

Q. Please describe your understanding of a natural gas utility’s responsibility to design and implement an EEP.

A. Under Section 8-104(e), a natural gas utility is required to “... oversee the design, development and filing ...” of its EEP program that is subject to the Commission review and approval. 220 ILCS 5/8-104(e). After the Commission approves the utility’s EEP program, the utility must file a compliance plan outlining its final EEP program for the program period.

Q. Please describe your understanding of Peoples Gas’ performance in its Plan 1 Program and the Peoples Gas requirements for its Plan 2 Program, as ordered by the Commission, as to the savings goals and the rate cap.

A. It is my understanding that, subject to a final report to be issued by Peoples Gas’ independent evaluator, Peoples Gas achieved Plan 1 Program’s statutory natural gas saving goals. Peoples Gas achieved an estimated total savings of 19.2 million therms during the Plan 1 Program while operating within the 2% rate cap on energy efficiency program spending.⁷ In the final order in ICC Docket No. 13-0550 (the “Final Order”), the Commission set a modified energy savings goal. Final Order at 7. The Commission

⁷ Peoples Gas presented its preliminary savings results for the Plan 1 Program on July 29, 2014, at the Stakeholders’ Advisory Group meeting. While subject to final review by Peoples Gas’ independent evaluator, Peoples Gas exceeded the statutory goal of approximately 16.8 million therms for the Plan 1 Program period.

found that Peoples Gas would be highly unlikely to achieve the statutory goal without exceeding the 2% rate cap. Id.

Q. Is Ms. Weigert correct that Peoples Gas’ EEP budget has decreased from the Plan 1 Program to the Plan 2 Program (City/CUB Ex. 2.0, 6:89-92)?

A. She is correct that the EEP budget from the Plan 1 Program to the Plan 2 Program has decreased, but she neglects to mention that the reduction is required to meet the rate cap. As explained in ICC Docket No. 13-0550, much of the reason for that reduction in the EEP budget is due to falling natural gas prices. In order to operate the Plan 2 Program within the statutorily-imposed 2% rate cap, the total program budget was decreased from Plan 1 Program levels. The Commission approved the reduced budget. Final Order at 67.

Q. Does Ms. Weigert substantiate her concern that Peoples Gas, after the reorganization with WEC, will not be more inclined “... to honor the aims of Section 8-104 and use all the funds collected from PGL ratepayers to fund effective programs” (City/CUB Ex. 2.0, 10:157-159)

A. No. Regardless of its ultimate owner, Peoples Gas is bound to follow the Commission’s final Order and its statutory requirements. Peoples Gas has a statutory requirement to design and implement an EEP program under Section 8-104(c). It did so in the Plan 1 Program and is doing so in the Plan 2 Program. A natural gas utility EEP program must be cost-effective. The Plan 1 Program has achieved the statutory goal while staying within the 2% rate cap. The Commission approved the Plan 2 Program indicating that it was in compliance with Section 8-104 of the Act, and directing Peoples Gas to “...

maximize the net benefits to Illinois ratepayers envisioned by Section 8-104 of the Act and remain in compliance with all other statutory objects ...” Final Order at 65, 67.

Q. Has Ms. Weigert justified her request for a study regarding third party administration of Peoples Gas’ and North Shore’s EEP program (City/CUB Ex. 2.0, 12:157-159)?

A. While I am not an attorney, third-party administration of an EEP program, without the involvement of the utility in its design and implementation, seems to run contrary to the statutory requirements. Natural gas utilities are required to design, implement and file their EEP programs with the Commission. A natural gas utility must ensure compliance with the statutory savings goal or Commission-set modified goal and demonstrate, coordinate and report on a variety of factors over the course of a particular EEP program period. Further, a natural gas utility is subject to penalty for failure to achieve the applicable statutory savings goal or Commission-set modified goal. The utility recovers its energy efficiency expenditures through a tariff and is subject to annual prudence review. Unlike, the third-party administered programs in other states, Illinois utilities are ultimately responsible for decisions involving design, implementation, cost recovery and administration.

Q. Does Peoples Gas use third-party vendors to design and implement EEP programs?

A. Yes. Peoples Gas uses Franklin Energy as its principal vendor to design and implement the EEP programs. Navigant Consulting is Peoples Gas’ vendor for conducting the independent measurement and evaluations of EEP savings. These outside vendors have brought significant value to Peoples Gas’ EEP program and have supported Peoples Gas in meeting its energy efficiency goals pursuant to statute and Commission order.

Franklin Energy operates at Peoples Gas' direction, and Peoples Gas remains responsible for the administration of its EEP programs.

Q. Has Ms. Weigert supported her assertion that Peoples Gas is disincented to implement energy efficiency programs (City/CUB Ex. 2.0, 11:189-191, 12:206-208)?

A. No. Peoples Gas by statute and Commission orders is required to achieve cost-effective energy efficiency goals in its Commission-approved EEP program. Those energy efficiency goals must be achieved by cost-effective, prudent spending within the 2% rate cap. Also, Peoples Gas has a decoupling mechanism, which means it does not benefit from increased throughput.

Q. Please describe Peoples Gas' support of the City's Building Energy Use Benchmarking Ordinance ("Benchmarking Ordinance") and other City energy efficiency initiatives as described in City/CUB witness Ms. Weigert's testimony (City/CUB Ex. 2.0, 13:226-229, 235-238; 14:250-253).

A. Peoples Gas has worked extensively with the City through its Retrofit Chicago program, development of systems and processes to support building owners/managers complying with the City's Benchmarking Ordinance and assisted in other City energy efficiency initiatives. Peoples Gas, and as I understand it, the City, are pleased with the success of the support. One example of this support has been Peoples Gas' assistance with the implementation of the Benchmarking Ordinance. In an effort to assist the building owners/managers and help facilitate the success for the Benchmarking Ordinance, Peoples Gas established a process for the aggregation of natural gas usage data for buildings. Peoples Gas has worked extensively with the City and other stakeholders, including building managers, over the course of the last eighteen months in designing its

process and executing a program to assist the building owners/managers' compliance with the Benchmarking Ordinance. Through Peoples Gas' process, building owners/managers are able to use a custom-designed website to submit their requests for aggregated gas usage for their buildings. Generally, the building owner/manager submitting the request will receive aggregated building gas usage data within one week of submittal. Peoples Gas, the City and other stakeholders continue to meet and refine Peoples Gas' process to better assist building owners/managers meet the informational and reporting requirements of the Benchmarking Ordinance.

Q. Please describe Peoples Gas' measured approach to offering energy efficiency measures through Peoples Gas' on-bill financing program ("OBF") relative to City/CUB witness Ms. Weigert's proposal that it be expanded to include all eligible EEP measures within its Plan 2 Program (City/CUB Ex. 2.0, 18:321-324).

A. In accordance with Peoples Gas' compliance plan filed in ICC Docket No. 13-0550, Peoples Gas is making a concerted effort for customer adoption of various weatherization measures, through either the OBF or the rebate program along with customers adopting other measures offered in the Plan 2 Program. Beginning in the first quarter of 2015, the range of weatherization measures, including air sealing, will be available under the OBF and through the Plan 2 Program. While Peoples Gas may offer the wider range energy efficiency measure within its Plan 2 Program through the use of OBF, Peoples Gas believes a measured approach to balancing the number of new measures offered through OBF with those that are purely offered through the Plan 2 Program is the most efficient way to putting new energy efficiency measures into the service territory.

307 **IV. EMPLOYEE COMPLEMENT**

308 **Q. Staff witness Mr. Lounsberry (Staff Ex. 2.0, pages 27-30) discusses the Joint**
309 **Applicants' proposals and information on the subject of the full time equivalent**
310 **("FTE") headcounts of Peoples Gas, North Shore, and Integrys Business Support,**
311 **LLC ("IBS") in the instant Docket and in the Gas Companies' 2014 Rate Cases.**
312 **Are Joint Applicants addressing Mr. Lounsberry's FTE testimony?**

313 **A.** Yes. Joint Applicants witness Mr. Leverett will respond comprehensively to Mr.
314 Lounsberry's FTE testimony, but I will address his discussion of the information
315 provided in the Joint Applicants' responses to various Staff data requests in the instant
316 Docket regarding that proposed commitment and how it relates to the 2015 FTE forecasts
317 presented and discussed by the Gas Companies in their pending rate cases.

318 **Q. Does Mr. Lounsberry's testimony provide a full discussion of how the Joint**
319 **Applicants' proposed Illinois FTE commitment relates to the 2015 FTE forecast that**
320 **the Gas Companies presented and discussed in their pending rate cases?**

321 **A.** No. Mr. Lounsberry's testimony is accurate as far as it goes, but, respectfully, additional
322 information is needed so that the Commission can fully understand the comparison he is
323 trying to make.

324 **Q. What additional information should be understood with respect to Mr.**
325 **Lounsberry's comparison?**

326 **A.** The following information helps to put that discussion in a fuller context.

327 The Gas Companies' pending rate cases involve a forecasted 2015 test year. As
328 discussed by the Gas Companies' testimony, their 2015 forecasts and that of IBS: (1)

329 were prepared in late 2013 by subject matter experts using the companies’
330 well-established annual forecasting processes (they were developed using as the basic
331 building block the companies’ 2014 budgets that were prepared and formally approved in
332 the Fall of 2013); (2) the forecasts were prepared in accordance with Generally Accepted
333 Accounting Principles; and (3) for rate case purposes, an independent Certified Public
334 Accountant (Deloitte & Touche LLP) confirmed that the forecasted financial statements
335 followed the applicable accounting standards for prospective financial information as
336 provided under the Commission’s rules (83 Ill. Adm. Code § 285.7010). The 2015
337 forecasts included forecasted FTE levels for each of Peoples Gas and North Shore and, in
338 the context of the forecasts of costs to be “cross-charged”⁸ to the Gas Companies by IBS
339 in 2015, reflected the 2015 forecast of the FTE level of IBS.⁹

340 In contrast, as Joint Applicants have explained in a number of data request
341 responses and Mr. Leverett states in his rebuttal testimony: (1) the overall Illinois FTE
342 commitment of 1,953 FTEs proposed in the direct testimony of Joint Applicants witness
343 Mr. Leverett was just that, a “floor” level commitment of maintaining at least 1,953 FTEs
344 in Illinois for WEC Energy Group in the aggregate, without any commitment at the
345 individual company level; (2) the 1,953 figure was based on data as of the end of the
346 most recent year for which full data are available, *i.e.*, as of December 31, 2013; (3) the
347 1,953 figure was not presented as, and is not a forecast for, 2015 (or for any later year)
348 for the Gas Companies and IBS (in Illinois) nor is it an opinion on the level of FTEs

⁸ IBS performs work and thus incurs costs for other Integrys companies, such as Peoples Gas and North Shore. IBS recovers these costs through “cross-charges.” In brief, cross-charges come in three forms: (1) direct charges when prudent and reasonable; (2) next, allocation of costs based on cost causation; and (3) finally, broad-based allocation using the applicable general corporate allocator.

⁹ The 2016 FTE levels are forecasted to be at the same level as the 2015 FTE levels, but that is not an issue in the pending rate cases because those cases involve a 2015 test year.

needed in 2015 (or later), rather, it was simply a proposed “minimum” or “floor”; and (4) for forecasting purposes, the Joint Applicants have adopted the FTE forecasts that the Gas Companies presented in the rate cases.

Thus, the Joint Applicants’ proposals and information on the subject of the FTE headcounts of Peoples Gas, North Shore, and IBS in the instant Docket are not inconsistent with the Gas Companies’ positions in their pending rate cases.

The Joint Applicants have responded to about 30 Staff, AG, and City data requests on this subject in the instant Docket. JA Ex. 6.1, attached to Mr. Leverett’s testimony, includes copies of their responses to Staff data requests ENG 1.23 and 3.04 and DGK 3.01, 3.02, and 3.03; AG data requests AG 3.02, 3.03, 5.01, 5.02, and 5.03; and City data request City 5.02. Mr. Lounsberry and Mr. Effron each referenced certain of these responses.

Q. Are the forecasted head count levels and the resulting costs that should be included in the Gas Companies’ revenue requirements an issue in their pending rate cases?

A. Yes, in the Gas Companies’ pending rate cases, every party had the ability to conduct discovery and submit testimony on this subject. The AG did so, and their witness was Mr. Effron. Staff’s testimony and briefing there agreed with the Gas Companies’ positions on this subject. The subject is addressed in the Administrative Law Judges’ Proposed Order dated December 5, 2014. The subject should be addressed there, not in this docket.

Q. Please summarize AG witness Mr. Effron’s discussion (AG Ex. 1.0, pages 7-11 and 19-20) on the subject of FTE headcounts, and his proposal for a new tariff rider relating to this subject.

372 A. In brief, Mr. Effron: (1) compares the Joint Applicants' direct testimony's proposed
373 Illinois 1,953 FTE two year commitment with the FTE levels forecasted for 2015 in the
374 Gas Companies' pending rate cases; (2) argues that if the FTE levels forecasted for 2015
375 are right, then the proposed commitment lacks value to customers; (3) argues that the
376 proposed commitment means that the 2015 FTE forecast includes employee levels that
377 are above what is required; and (4) proposes that if, in the pending rate cases, the
378 Commission approves revenue requirements that reflect the Gas Companies' 2015 FTE
379 forecasts, then the Commission here should direct Peoples Gas and North Shore to adopt
380 a new tariff rider that credits customers commencing at the closing of the Transaction
381 until the rates in the Gas Companies' next rate cases go into effect with net savings, if
382 any, resulting from actual FTE levels being lower than the 2015 FTE forecasts.

383 My rebuttal responds with respect to subjects (1), (3), and (4). Mr. Leverett's
384 rebuttal responds regarding all four subjects, in part drawing on my rebuttal.

385 **Q. Does the Joint Applicants' proposed commitment means that the 2015 FTE**
386 **forecasts include employee levels that are above what is required?**

387 A. No. Mr. Effron's proposed inference to that effect is illogical and lacks any factual
388 support. Nothing in Mr. Leverett's direct testimony stated or supports any such
389 inference. The proposal for an aggregate "minimum" or "floor" level of Illinois FTEs is
390 independent of the forecasted 2015 FTE levels, which the Gas Companies presented and
391 supported in their pending rate cases. The FTE proposal in this docket cannot be used as
392 a basis to claim that the Gas Companies' forecasted FTE levels are excessive. The flaws
393 in Mr. Effron's reasoning on this point and its inconsistency with the facts are reflected
394 further in DRRs AG 3.02 and 5.01, which are included in JA Ex. 6.1.

395 **Q. Mr. Effron proposes that the Commission here should direct Peoples Gas and North**
396 **Shore to adopt a new tariff rider that credits customers with any net savings**
397 **resulting from Gas Companies' actual FTE levels being lower than the 2015 FTE**
398 **forecasts, no matter how long it is until those rate cases. Please comment on this**
399 **proposal.**

400 A. The proposal is flawed for numerous reasons. First, Mr. Effron has identified no sound
401 and fair basis for singling out headcount levels as opposed to total costs as the subject for
402 a new rider. If the Gas Companies' total costs in 2015 are at or above the levels reflected
403 in their 2015 rates, crediting customers through a new rider with net savings (if any)
404 resulting from headcount variances would deny the utilities the opportunity for full
405 recovery of their costs.

406 Second, Mr. Effron has identified no sound and fair basis for singling out
407 headcount levels versus any other specific cost item. For example, the evidence in the
408 record in the pending rate cases shows that Peoples Gas' 2014 paving costs as of August
409 2014 are running about \$8 million above the budgeted and forecasted level reflected in
410 Peoples Gas' proposed revenue requirement. There is no sound and fair reason to focus
411 on possible net savings from headcount downward variances while turning a blind eye to
412 paving costs (or any other specific cost item).

413 Third, the rates being set in the pending rate cases are based on a 2015 test year,
414 yet Mr. Effron's proposal would credit customers with net savings (if any) that occur due
415 to headcount downward variances in 2015, 2016, and any later period through the Gas
416 Companies' next rate cases. The proposal thus arbitrarily and selectively ignores any
417 changes in other costs after 2015, such as inflation.

Finally, Mr. Effron has presented no explanation of how his rider proposals are consistent with the AG's repeated opposition to non-statutory cost recovery riders on single issue and/or retroactive ratemaking grounds. For example, in the Gas Companies' 2007 Rate Cases and 2009 Rate Cases, the AG opposed Peoples Gas' proposed infrastructure cost recovery rider, and the AG later successfully appealed from the adoption of such a rider in the 2009 Rate Cases. The AG has also opposed or appealed from certain cost recovery riders proposed by other utilities. Even with respect to a rate design rider, *i.e.*, the Gas Companies' decoupling rider (Rider VBA), the AG opposed that rider as a pilot rider in the 2007 Rate Cases and as a permanent rider in the Utilities' 2011 Rate Cases (ICC Docket Nos. 11-0280/11-0281 (cons.)). Having lost in the Appellate Court, the AG now has a pending appeal in the Illinois Supreme Court.¹⁰

V. INTEGRYS CUSTOMER EXPERIENCE PROJECT

Q. What is the ICE project?

A. The ICE project is a significant upgrade to Integrys' customer information system that IBS is performing for the Integrys utilities, including Peoples Gas and North Shore. AG witness Mr. Effron quotes an excerpt from the direct testimony of Tracy Kupsh, Director, Operations Accounting IBS, filed on behalf of Peoples Gas in the 2014 Rate Cases, that describes the ICE project. I repeat that description here for the convenience of the reader.

The ICE project will unify Cfirst, which is the customer information system that Peoples Gas currently uses, and the various customer information systems currently in use across Integrys. It will provide significant benefits

¹⁰ My understanding from counsel is that the Gas Companies contend in that appeal that the AG previously had waived its retroactive ratemaking claim. My rebuttal here is not intended to get into the specifics of what the AG argued in each prior case. My point is that the AG has made numerous single issue and/or retroactive ratemaking arguments against proposed or approved riders in prior cases and appeals, and yet, here, the AG's witness, Mr. Effron, proposed two riders without making any attempt to explain how they are in accord with the single issue and retroactive ratemaking doctrines or with the AG's prior and pending arguments on those topics.

439 to Peoples Gas [and North Shore] and the other Integrys regulated utilities
440 such as improved efficiency and productivity and standardization of internal
441 delivery which will improve customer satisfaction. In addition to unifying
442 systems, the ICE project will improve and enhance billing, collections, call
443 center, and self-service related offerings by ensuring that these functions are
444 staffed appropriately to continue to leverage the opportunities of a large
445 corporation, while maintaining the high level of service of a local utility.

446 PGL Ex. 13.0, 10:207-215 (bracketed material was added by Mr. Effron and is correct) in
447 ICC Docket Nos. 14-0224/14-0225 (cons.).

448 **Q. How does IBS recover costs that it incurs on behalf of Integrys' utilities?**

449 A. IBS costs are cross-charged to the utilities based on cost causation as reflected in the
450 percentages shown in the Joint Applicants' response to AG data request 3.05, Attachment
451 01, in the instant Docket. Mr. Effron presented that response as AG Ex. 1.5, and it also is
452 included in JA Ex. 9.1 attached hereto.

453 **Q. Please summarize the AG witness Mr. Effron's proposal for a new tariff rider on**
454 **this subject (AG Ex. 1.0, pages 11-20).**

455 A. In brief, Mr. Effron discusses: (1) the portion of the forecasted 2015 IBS cross-charges to
456 the Gas Companies for the ICE project that is included in their proposed revenue
457 requirements in their pending rate cases; (2) the fact that no cost savings due to the ICE
458 project are forecasted for 2015; (3) his contention that information provided by the Joint
459 Applicants in JA Ex. 4.1 and in certain of their data request responses calls into question
460 the reasonable level of 2015 forecasted cross-charges and the absence of 2015 forecast
461 cost savings; and (4) his proposal that if the Commission approves 2015 rates for the Gas
462 Companies that incorporate cross-charged ICE project costs (and the absence of 2015
463 savings), then the Commission should require the Gas Companies to adopt a new tariff
464 rider that credits customers with any net savings, if any, resulting from the ICE project.

My rebuttal responds with respect to all four subjects. Mr. Leverett's rebuttal also addresses certain aspects of this subject, in part drawing on my rebuttal.

Q. Is the amount of IBS cross-charges for ICE project costs that should be included in the Gas Companies' 2015 revenue requirements (including any potential offsets for cost savings) an issue in their pending rate cases?

A. Yes, in the Gas Companies' pending rate cases, every party had the ability to conduct discovery and submit testimony on this subject. The AG did so, and the AG witness was Mr. Effron. Staff's testimony and briefing there agreed with the Gas Companies' positions on this subject. The subject is addressed in the Administrative Law Judges' Proposed Order dated December 5, 2014. That subject should be addressed there, not here.

Q. Does the information the Joint Applicants provided in JA Ex. 4.1 and in their data request responses related to the ICE project call into question the reasonable level of 2015 forecasted cross-charges and the absence of 2015 forecast cost savings?

A. No. Mr. Effron is trying to use older information to call into question updated information, and that is not logical or reasonable here.

Q. Why do you say that Mr. Effron is trying to use older information to call into question updated information?

A. Mr. Effron's position, essentially, is based on data request responses related to a footnote in JA Ex. 4.1 to call into question later, updated data regarding the ICE project.

JA Ex. 4.1 is the Gas Companies' long-term – *i.e.*, five year - capital forecast that the Gas Companies prepared in Fall 2012 and the Integrys Board of Directors formally

487 approved in 2013. The forecast thus reflects 2012 information. The Gas Companies do
488 not have a more current Board-approved long-term capital forecast. Thus, the long-term
489 forecast was provided as part of the Joint Applicants' filing in light of the requirement in
490 Section 7-204A(a)(7) of the Act.

491 One footnote of the assumptions in that 2012 long-term forecast relates to the ICE
492 project. The AG asked a number of data requests relating to that footnote, including AG
493 data requests 2.13 and 3.05. Mr. Effron provided copies of those responses in AG Exs.
494 1.3 and 1.5, respectively, and they also are included, along with certain other ICE-related
495 responses, in JA Ex. 9.1. That footnote and those two responses are based on data as of
496 September 2012, as the responses make clear. Mr. Effron does not and cannot claim
497 otherwise.

498 In contrast, the Gas Companies' 2015 forecasts presented in their pending rate
499 cases were prepared in late 2013 by subject matter experts using the companies'
500 well-established annual forecasting processes. In addition, the Joint Applicants in the
501 instant case have answered a number of additional AG data requests related to the ICE
502 project. Those responses, in brief, explain the two different sets of data, one older (which
503 Mr. Effron relies upon), and the later, updated data, which is what the Gas Companies are
504 using in their pending rate cases. The two sets of data are "inconsistent," to use Mr.
505 Effron's terminology, only in the sense that they are different because the later data
506 update the older. Mr. Effron has not identified any error in the updated data. His use of
507 rhetorical terms such as "improbable in the extreme" is not a substitute for facts. The
508 older information does not somehow create a concern as to the reasonableness of the
509 later, updated information. *See* JA Ex. 9.1.

Nothing that Mr. Effron has said here shows that the amount of ICE project costs to be included in the Gas Companies' proposed revenue requirements in their pending rate cases should be decided anywhere but in those cases. In discussing this subject, I am not suggesting otherwise, and I do not believe that even Mr. Effron is proposing that. Rather, as I understand it, Mr. Effron is trying to create doubts so as to support his proposed new tariff rider.

Q. Mr. Effron proposes that if the Commission approves 2015 rates for the Gas Companies that incorporate cross-charged ICE project costs (and the absence of 2015 savings), then the Commission should direct them to adopt a new tariff rider that credits customers with any net savings, if any, resulting from the ICE project. Should his proposal be adopted?

A. No. The proposal should be rejected for several reasons, largely parallel to the flaws of his other rider proposal that I discussed above. First, Mr. Effron has identified no sound and fair basis for singling out ICE project costs as opposed to total costs as the subject for a new rider.

Second, Mr. Effron has identified no sound and fair basis for singling out ICE project costs (and savings) from any other specific cost item, such as paving, restoration and permitting costs. For example, paving costs (operating expenses) through August 2014 are over \$25.5 million, which is close to the forecasted O&M paving costs of \$26 million for the entire year. This is almost \$8 million over the forecast for the first eight months of 2014.

Third, the rates being set in the pending rate cases are based on a 2015 test year, yet Mr. Effron's proposal would credit customers with net savings (if any) that occur in

533 2015, 2016, and any later period through the Gas Companies' next rate cases. As
534 indicated above, savings are not forecasted to occur until 2016. The proposal thus
535 arbitrarily and selectively ignores any changes in other costs (or savings) after 2015,
536 including but not limited to inflation.

537 Finally, Mr. Effron has presented no explanation of how his rider proposals are
538 consistent with the AG's repeated opposition to non-statutory cost recovery riders on
539 single issue and/or retroactive ratemaking grounds.

540 **Q. Does this conclude your rebuttal testimony?**

541 **A. Yes.**